S. HRG. 99-762

NOMINATION OF LAWRENCE B. GIBBS AND MICHAEL R. DARBY

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

NOMINATION OF

LAWRENCE B. GIBBS, TO BE COMMISSIONER OF INTERNAL REVENUE, AND MICHAEL R. DARBY, PH.D., TO BE ASSISTANT SECRETARY OF TREASURY FOR ECONOMIC POLICY

JUNE 19, 1986

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NOMINATION OF LAWRENCE B. GIBBS AND MICHAEL R. DARBY

THURSDAY, JUNE 19, 1986

U.S. SENATE,
FINANCE COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 2:05 p.m. in room SD-215, Dirksen Senate Office Building, Hon. Charles Grassley presiding.

Present: Senators Grassley, Heinz, and Bentsen.

Also present: Senator Phil Gramm.

[The press release announcing the hearing and background biographical material on Mr. Gibbs and Dr. Darby follow:]

FINANCE COMMITTEE TO REVIEW GIBBS AND DARBY NOMINATIONS

Senator Bob Packwood (R-Oregon) announced today that the Senate Committee on Finance will hold a hearing on June 19, 1986, to review the nominations of Lawrence B. Gibbs to be Commissioner of Internal Revenue and Michael R. Darby, Ph.D. to be Assistant Secretary of Treasury for Economic Policy.

Senator Packwood said that Senator Charles Grassley (R-Iowa) will chair the hearing which is scheduled to begin at 2:00 p.m., Thursday, June 19, 1986, in Room SD-215 of the Dirksen Senate Office Building.

Lawrence Gibbs has been a partner in the law firm of Johnson and Swanson since 1976. From 1972 to 1976 he has held the following positions at the Internal Revenue Service respectively: Deputy Chief Counsel, Acting Chief Counsel, and Assistant Commissioner (Technical). Prior to his service at the Internal Revenue Service, he was an attorney with Branscomb, Gary, Thomasson, and Hall. Mr. Gibbs is from Dallas, Texas.

Mr. Gibbs received his bachelor's degree from Yale University, and his LLB from the University of Texas School of Law at Austin.

Dr. Michael R. Darby, also from Dallas, Texas, is a Professor at the Department of Economics at the University of California at Los Angeles (since 1978). He has also held the positions of Associate Professor, (1974-1978), Acting Associate Professor (1973-1974), and Visiting Assistant Professor (1972-1973) at the University. He has also served as Assistant Professor and Director of the Division for Economic Research at Ohio State University at Columbus. Additionally, Dr. Darby is a Research Associate at the National Bureau of Economic Research.

Dr. Darby received his bachelor's degree from Dartmouth College and his M.A. and Ph.D. at the University of Chicago.

INFORMATION PROVIDED BY NOMINEE

A. BIOGRAPHICAL.

1. Name: Lawrence Blair Gibbs.

2. Address: 3825 Normandy, Dallas, Texas 75205 (residence).
Johnson & Swanson, 100 Founders Square, 900 Jackson Street, Dallas, Texas 75202-4499 (office).

3. Date and Place of Birth: August 31, 1938, at Hutchison, Kansas.

4. Marital Status: Married to Dorothea Faubion Straughan Gibbs.

5. Names and Ages of Children: Daughter, Blair Marie Gibbs (age 22), and son, Dwight Joseph Gibbs (age 19).

6. Education: I attended Yale University from 1956 until 1960, and I received a Bachelor of Arts degree in 1960. I attended the University of Texas School of Law at Austin from 1960 until 1963, and I received a LLB. degree in 1963.

7. Employment Record: From June 1963 until November 1972, I practiced law as an attorney with Branscomb, Gary, Thomasson & Hall, P. O. Box 2888, Corpus Christi, Texas 78403. From November 1972 until January 1976, I served as the Deputy and Acting Chief Counsel to the Internal Revenue Service and Assistant Commissioner (Technical) of IRS at 1111 Constitution Avenue, N.W., Washington, D. C. 20224. From January 1976 until the present, I have been a partner in the practice of law at Johnson & Swanson, 100 Founders Square, 900 Jackson Street, Dallas, Texas 75202-4499.

8. Government Experience: From November 1972 until November 1973, I served as the Deputy Chief Counsel to the Internal Revenue Service (and from April 1973 until October 1973, I served as the Acting Chief Counsel to IRS), and from November 1973 until January 1976, I served as the Assistant Commissioner (Technical) of IRS. In addition, I was a member of the Advisory Committee to the Commissioner of Internal Revenue from June 1983 to November 1984. I also served as a member of the Advisory Committee of the Assistant Attorney General (Tax

Division) at the Department of Justice from October 1982 to December 1984.

9. Memberships: Attached as Schedule I is a list of all memberships and offices held by me in professional, fraternal, scholarly, civic, charitable and other organizations.

10. Political Affiliations and Activities: During the last ten years, I have provided the following services and contributions:

a. I assisted in making local arrangements for the Lugar Reception for Senatorial Trust Members during the 1984 Republican Convention in Dallas, Texas.

b. To the best of my recollection, I have made the following financial contributions:

3/29/85	Re-Elect Packwood Committee
7/17/85	Republican Party of Texas
7/23/85	Friends of Edd Hargett
8/8/85	National Republican Senatorial Committee
10/7/85	Steve Bartlett Congressional Campaign Committee
10/18/85	National Republican Senatorial Committee
10/23/85	Re-Elect Bill Clements Committee
10/23/85	Texas Thanks John Tower
1/5/84	Steve Bartlett Campaign
8/1/84	Steve Bartlett Campaign
4/27/84	Friends of Phil Gramm
8/11/84	National Republican Senatorial Campaign
10/24/84	Texas Reagan Campaign
1/6/82	Kay Hutchison for Congress
1/13/82	John Tower Fund
5/26/82	Governor Clements Campaign
7/12/82	Governor Clements Campaign
5/4/81	Clements Appreciation Dinner
9/30/81	Steve Bartlett for Congress
1/10/79	Clements for Governor

11. Honors and Awards: While I was employed by the Internal Revenue Service, I received the following special recognitions for outstanding service or achievement:

a. Chief Counsel's Award, received December 1973.

b. Deparment of the Treasury, Secretary's Certificate, received October 1975.

c. Department of the Treasury, Meritorious Service Award, received November 1975.

12. Published Writings: I have published the following books, articles and other materials:

"Depreciation of Property Acquired Subject to a Long-Term Lease", 42 Texas Law Review 72 (1963);

"Entertainment Expense Deductions by Lawyers", 26 Texas Bar Journal 733 (1963);

"Income Shifting - Recent Trends in Leaseback Transactions", 19 Southwestern Law Journal 273 (1965), reprinted in the Monthly Digest of Tax Articles (1966);

Contributor to How to Live and Die with Texas Probate, Edited by the Texas Bar Association (Gulf Publishing Co., 1968);

"Post-Gilmore - Recent Trends in the Deductibility of Professional Fees", 23 Southwestern Law Journal 644 (1969);

"Legal Fees: Supreme Court Cases Requiring Capitalization Will Have Broad Impact", 33 Journal of Taxation 201 (1970);

"Developing Patterns in the Deduction of Professional Fees", 50 Taxes Magazine 771 (1972), reprinted in the Monthly Digest of Tax Articles (1973);

"Executive Perks: Emerging Tax and Securities Law Rules", Vol. 31, No. 4 The Tax Executive 269 (1979);

"Emerging IRS Attitude Toward State Death Tax Credit and Its Impact on Installment Payment of Estate Taxes", Vol. No. 14, Miami Estate Planning Institute ¶ 1800 (1980);

"Estate Planning Techniques in Oil and Gas", Vol. No. 15, Miami Estate Planning Institute, ¶ 1500 (1981);

"The New Compliance Rules of the Tax Reform Act of 1984", Vol. 9, No. 3, ALI-ABA Course Materials Journal (1984);

"New Service Compliance Techniques: Their Impact on Fiduciaries", Vol. No. 18, Philip E. Heckerling Institute on Estate Planning ¶ 300 (1984).

INFORMATION REQUESTED OF NOMINEE BY SENATE COMMITTEE ON FINANCE

A. BIOGRAPHICAL

1. Name: Michael R. Darby

2. Addresses:

3937 Purdue Street
Dallas, Texas 75225
(legal residence)

22414 De Kalb Drive
Woodland Hills, California 91364
(tax home)

Department of Economics
University of California, Los Angeles
Los Angeles, California 90024
(university mailing address)

3. Date and place of birth: November 24, 1945, in Dallas, Texas

4. Marital status: Married (Joanne Tyndall Smith)

5. Names & ages of children: Margaret Loutrel Darby, 16
David Michael Darby, 11

6. Education: Dartmouth College, 1963-67, A.B. 1967
University of Chicago, 1967-70, M.A. 1968, Ph.D. 1970

7. Employment Experience:

a. University Appointments:

University of California, Los Angeles, Department of Economics: Professor, 1978 - ; Associate Professor, 1974-78; Acting Associate Professor, 1973-74; Visiting Assistant Professor, 1972-73.

Ohio State University, Columbus, Department of Economics: Assistant Professor, 1970-73; Director, Division for Economic Research, 1971-72.

b. Other Appointments:

National Bureau of Economic Research, Research Associate, Los Angeles, 1976 - ; Harry Scherman Research Fellow, New York, 1974-75.

Hoover Institution on War, Revolution, and Peace, Stanford University, Stanford, CA, Visiting Fellow, 1977-78.

Vice President and Director, Paragon Industries, Inc., Dallas, Texas, 1964-82.

8. Government experience: Employment by The Ohio State University and University of California (see Item A.7 above).

Consultant (expert witness) for Office of the City Attorney of Los Angeles, 1985-86.

Academic consultant to the Board of Governors of the Federal Reserve System, 1976.

9. Memberships:

American Economic Association*
American Finance Association
American Statistical Association
Mont Pelerin Society
Royal Economic Society
Western Economic Association*
The Opera Associates
U.S. Naval Institute

*Offices included in Item A.11 below.

10. Political affiliations and activities: I have played no active role in politics except for an informal seminar at the California College Republican State Convention, April 1986; voting in Texas Republican primaries and general elections; and my wife or I responding irregularly in amounts of at most $100 per year to national Republican party mailings.

11. Honors and Awards:

a. Honors Received:

Listed in Who's Who in Economics: A Biographical Dictionary of Major Economists, 1700-1981, 1983. (Also 2nd edition, 1700-1983, 1985).

Federal Deposit Insurance Corporation Prize for Best Dissertation, Fellowship Year 1969-70.

Federal Deposit Insurance Corporation Graduate Fellow, 1969-70.

National Science Foundation Graduate Fellow, 1967-69.

Lilly Honor Fellow, 1967-70.

Woodrow Wilson Fellow (Honorary), 1967-68.

Senior Fellow of Dartmouth College, 1966-67.

Phi Beta Kappa, 1966.

b. Professional Activities:

Editor, Journal of International Money and Finance, 1981 - .

Member of Editorial Board, American Economic Review, 1983 - .

Institute of Industrial Relations,, U.C.L.A., Research Associate, 1981-85; Faculty Advisory Committee, 1981-82.

Chair, Selection Committee for the best article published in Economic Inquiry, vol. 22 (1984).

Member, Western Economic Association Meetings Program Committee, San Diego June 1980; Invited Sessions Committee, San Francisco July 1981, Los Angeles July 1982.

Institute of Social Science Research, U.C.L.A., Faculty Advisory Committee, 1981-82.

External Examiner for Ph.D. in Economics, University of Western Ontario, 1979.

Money and Macroeconomics Program Chairman, Econometric Society Meetings, Chicago, August 1978.

Book Review Editor, Journal of Money, Credit, and Banking, 1973-74.

c. Research Grants:

"A Dynamic Analysis of the Effects of Social Security on Income and the Capital Stock," $20,850, American Enterprise Institute for Public Policy Research, April - December 1976.

"The International Transmission of Inflation Through the World Monetary System," Co-Principal Investigator with Anna J. Schwartz for the National Bureau of Economic Research. In association with Benjamin Klein, Arthur Gandolfi, James Lothian, and Alan Stockman. Funding for September 1976 - August 1981 from the National Science Foundation, $434,051; Relm Foundation, $14,313; Scaife Family Trusts, $50,000; and Alex C. Walker Educational and Charitable Foundation, $15,000.

"The U.S. Productivity Slowdown: International Evidence on Causes, Implications, and Responses," Principal Investigator for the National Bureau of Economic Research. Funding for July 1982-June 1985 from the National Science Foundation, $67,500; N.B.E.R. Project on Productivity and Industrial Change in the World Economy, $38,934.

"International Transmission under Floating Exchange Rates," Principal Investigator with James R. Lothian for proposal. (Seed money grant of $10,000 from the Earhart Foundation to the Foundation for Research in Economics and Education, 1986.)

12. Published Writings:

a. Books and Monographs:

Macroeconomics: The Theory of Income, Employment, and the Price Level, New York: McGraw-Hill Book Company, 1976.

Have Controls Ever Worked? The Post-War Record (with Michael Parkin), Vancouver: The Fraser Institute, 1976.

The Effects of Social Security on Income and the Capital Stock, Washington: American Enterprise Institute, 1979.

Intermediate Macroeconomics, New York: McGraw-Hill Book Co., 1979. (Japanese ed., Yukio Masui and Junji Narita, trans., Tokyo: McGraw-Hill-Kogakusha, 1981.)

The International Transmission of Inflation by Michael R. Darby, James R. Lothian, Arthur E. Gandolfi, Anna J. Schwartz, and Alan C. Stockman, A National Bureau of Economic Research Monograph, Chicago: University of Chicago Press, 1983; paperback edition, 1985.

Labor Force, Employment, and Productivity in Historical Perspective, Monograph and Research Series, No. 37, Los Angeles: U.C.L.A. Institute of Industrial Relations, 1984.

Intermediate Macroeconomics (with Michael T. Melvin), Glenview, Ill.: Scott Foresman and Co., 1986.

b. Articles:

"The Allocation of Transitory Income Among Consumers' Assets," American Economic Review, December 1972, 62: 928-41.

"Free Competition and the Optimal Amount of Fraud," (with Edi Karni) Journal of Law and Economics, April 1973, 16: 67-88.

"The Permanent Income Theory of Consumption -- A Restatement," Quarterly Journal of Economics, May 1974, 88: 228-50.

"Postwar U.S. Consumption, Consumer Expenditures, and Saving," American Economic Review, May 1975, 65: 217-22.

"The Financial and Tax Effects of Monetary Policy on Interest Rates," Economic Inquiry, June 1975, 13: 266-76.

"Three-and-a-Half Million U.S. Employees Have Been Mislaid: Or, An Explanation of Unemployment, 1934-1941," Journal of Political Economy, February 1976, 84: 1-16.

"The U.S. Economic Stabilization Program of 1971-1974," in M. Parkin and M.R. Darby, Have Controls Ever Worked? The Post-War Record, Vancouver: Fraser Institute, 1976. (Reprinted in M. Walker, ed., The Illusion of Wage and Price Control, Vancouver: Fraser Institute, 1976; Spanish translation in M. Walker, ed., La Ilusion del Control de Precios y Salarios, Eduardo L. Suarez, trans., Monterrey, Mexico: Centro de Estudios en Economia y Educacion, A.C., 1982; also reprinted in Wage-Price Control: Myth and Reality, Sudha R. Shenoy, ed., Sydney: Center for Independent Studies, 1979.)

"Price and Wage Controls: The First Two Years," Carnegie-Rochester Conference Series on Public Policy, April 1976, 2: 235-263.

"Rational Expectations under Conditions of Costly Information," Journal of Finance, June 1976, 31: 889-95.

"The Consumer Expenditure Function," Explorations in Economic Research, Winter-Spring 1977-1978, 4: 645-74.

"The NBER International Transmission Model: The Mark II Disequilibrium Version, Lessons and Estimates," in Proceedings of 1978 West Coast Academic/Federal Reserve Economic Research Seminar, San Francisco: Federal Reserve Bank of San Francisco, 1979.

"The Role of Money Supply Shocks in the Short-Run Demand for Money," (with Jack Carr), Journal of Monetary Economics, September 1981, 8: 183-199.

"Unanticipated or Actual Changes in Aggregate Demand Variables: A Cross-Country Analysis," in Proceedings of Fourth West Coast Academic/Federal Reserve Economic Research Seminar, Fall 1980, Federal Reserve Bank of San Francisco Economic Review; Conference Supplement, November 1981.

"The International Economy as a Source of and Restraint on United States Inflation," in William A. Gale, ed., Inflation: Causes, Consequents, and Control, Cambridge: Oelgeschlager, Gunn & Hain, Publishers, Inc., 1981.

"The Price of Oil and World Inflation and Recession," American Economic Review, September 1982, 82: 738-751. (Republished in microfiche form by EIC/Intelligence, 1984, Document no. 84-in press).

"Does Purchasing Power Parity Work?" in Proceedings of Fifth West Coast Academic/Federal Reserve Economic Research Seminar, December 1981, San Francisco: Federal Reserve Bank of San Francisco, 1982. (Reprinted in USIA's Portfolio: International Economic Perspectives, vol. 9, no. 3.)

"International Transmission under Pegged and Floating Exchange Rates: An Empirical Comparison," in J.S. Bhandari and B.H. Putnam, eds., Economic Interdependence and Flexible Exchange Rates, Cambridge: M.I.T. Press, 1983.

"British Economic Policy under Margaret Thatcher: A Midterm Examination" (with James Lothian), Carnegie-Rochester Conference Series on Public Policy, Spring 1983, 18: 157-207.

"The U.S. Productivity Slowdown: A Case of Statistical Myopia," American Economic Review, June 1984, 74: 301-322.

"Monetary Policy in the Large Open Economy," in Albert Ando, Hidekazu Eguchi, Roger Farmer, and Yoshio Suzuki, eds., Monetary Policy in Our Times, Proceedings of the First International Conference sponsored by the Institute for Monetary and Economic Studies, Bank of Japan, Cambridge: M.I.T. Press, 1985.

"Unemployment-Rate Dynamics and Persistent Unemployment under Rational Expectations" (with John C. Haltiwanger and Mark W. Plant), American Economic Review, September 1985, 75: 614-637.

c. Notes and Comments

"Allais' Restatement of the Quantity Theory: Comment," American Economic Review, June 1970, 60: 444-46.

"Paper Recycling and the Stock of Trees," Journal of Political Economy, September/October 1973, 81: 1235-55.

"Consumers' Durable Goods, Human Capital, and the Pareto Optimality of the Lange-Lerner State," Journal of Political Economy, January/February 1974, 82: 180-84.

"Comments on Modigliani and Ando," in Jerome L. Stein, ed., Monetarism, Studies in Monetary Economics vol. 1, Amsterdam: North-Holland Publishing Co., 1976.

"Price and Wage Controls: Further Evidence," Carnegie-Rochester Conference Series on Public Policy, April 1976, 2: 269-271.

"Indexing Social Security: What to Do? -- Discussion," in Colin D. Campbell, ed., Financing Social Security, Washington: American Enterprise Institute, 1979.

"Social Security and Saving: Another Look," Social Security Bulletin, May 1979, 42 (5): 33, 35-36.

"The Monetary Approach to the Balance of Payments: Two Specious Assumptions," Economic Inquiry, April 1980, 18: 321-326.

"Anticipated Money Growth and Employment Growth in the United States: Discussion Comments," in Proceedings of Third West Coast Academic/Federal Reserve Economic Research Seminar, October 1979, Federal Reserve Bank of San Francisco Economic Review, Conference Supplement, August 1980.

"A Syllabus for Macrodynamics," in Edward Tower, ed., Macroeconomics, Monetary Economics, and Money & Banking Course Materials, Durham, N.C.: Eno River Press, 1981. (Reprinted with revisions in The American Economist, Spring 1983, 27: 71-78.)

"Consumption Function," "Dynamic Analysis," "Dynamic Macroeconomic Models," "IS-LM Model," "Permanent Income Hypothesis," and "Static Analysis," in Douglas Greenwald, ed., Encyclopedia of Economics, New York: McGraw-Hill Book Co., 1982.

"The Political Basis of International Inflation," in Raymond Lombra and Willard Witte, eds., The Political Economy of Domestic and International Monetary Relations, Ames, Iowa: Iowa State University Press, 1982.

"Thatcher Monetary Policy is Working: No Case for Reflation" (with James R. Lothian), Journal of Economics Affairs, October 1982, 1: 7-10.

"Some Pleasant Monetarist Arithmetic," Federal Reserve Bank of Minneapolis Quarterly Review, Spring 1984, 8(2): 15-20. (Reprinted in Thomas M. Havrilesky, ed., Modern Concepts in Macroeconomics, Arlington Heights, Ill.: Harlan Davidson, Inc., 1985; also reprinted in Federal Reserve Bank of Minneapolis Quarterly Review, Winter 1985, 9(1): 32-37 due to "unforeseen high demand" for original issue.)

"Monetary Anticipations and the Demand for Money: Reply to MacKinnon and Milbourne" (with Jack Carr and Daniel L. Thornton), Journal of Monetary Economics, September 1985, 16: 251-257.

"Bank Failures: The 1930s and the 1980s — Discussion," in The Search for Financial Stability: The Past Fifty Years, San Francisco: Federal Reserve Bank of San Francisco, 1985.

d. Book Reviews:

Portfolio Behavior of Financial Institutions, by William L. Silber, Review, Journal of Money, Credit, and Banking, August 1972, 4: 753-54.

An Introduction to Money and Banking, by Colin D. Campbell and Rosemary G. Campbell, Review, Dartmouth Alumni Magazine, October 1972, 65 (1): 13-14.

The Cashless Society, by Robert Hendrickson, Review, Journal of Money, Credit, and Banking, August 1973, 5: 870-71.

Selected Essays on the Economic Growth of the Socialist and Mixed Economy by Michal Kalecki, Review, Journal of Political Economy, November/December 1973, 81: 1484-85.

Permanent Income, Wealth, and Consumption, by Thomas Mayer, Review, Journal of Money, Credit, and Banking, February 1975, 7: 122-24.

The Effect of Social Security on Personal Saving, by Alicia Haydock Munnell, Review, Journal of Finance, May 1976, 31: 186-87.

The Unseen Revolution: How Pension Fund Socialism Came to America, by Peter F. Drucker, Review, Business Week, July 19, 1976, no. 2441, pp. 6, 10.

Social Security versus Private Saving, edited by George von Furstenberg, Review, Journal of Money, Credit, and Banking, August 1981, 13: 407-408.

Essays in Post-Keynesian Inflation, edited by James H. Gapinski and Charles E. Rockwood, Review, Journal of Economic Literature, December 1981, 19: 1600-1601. (Reprinted in Economic Impact, 1982/3, no. 39, pp. 88-89.)

The Great Depression Revisited, edited by Karl Brunner, Review, Journal of Money, Credit, and Banking, May 1982, 14: 293-295.

The Economics of Large Government Deficits, conference proceedings. Review, Journal of Money, Credit, and Banking, November 1985, 17: 549-550.

e. Popular and Other Publications:

"Why is Inflation so High?", "What Causes Gasoline Shortages?", "How Secure is Social Security?", "Why are Interest Rates so High?", and "Is Inflation Out of Control?" in Focus on the Economy, Los Angeles: Century Federal Savings and Loan Association, 1979-1980.

"Research Summary of The International Transmission of Inflation" (with James R. Lothian), NBER Reporter, Winter 1981/2, pp. 6-9.

"Inflation," in Academic American Encyclopedia, vol. 11, Danbury, Ct.: Grolier Inc., 1982. (Expanded revision, in press.)

"World Inflation: USA Major Cause" (with James R. Lothian), Economic Affairs, April-June 1984, 4(3): 9-13.

"America's Role in Global Inflation" (with James R. Lothian), International Business Conditions Digest, July 1984, 2(7): 7-8.

Senator GRASSLEY. I am Senator Grassley from Iowa, and I would like to call this meeting, which is called for a hearing, on the nominations of Lawrence Gibbs for Commissioner of Internal Revenue and Michael Darby to be Assistant Secretary of Treasury for Economic Policy. I would like to call the meeting to order. I have no opening statement.

I would like to call the nominees, both together, to the table, if I could, and before you speak I would like to have Senator Bentsen have the floor.

Senator BENTSEN. Thank you.

Senator GRASSLEY. Would you come up, both of you, and then we will call on you separately.

Senator BENTSEN. You have my distinguished colleague, Senator Gramm of Texas, who sponsored these.

Senator GRASSLEY. Sorry, I wasn't even looking up. Yes, please come up.

Senator BENTSEN. Mr. Chairman, I am pleased to have this opportunity to ~~join with my~~ colleague Senator Gramm to welcome Larry Gibbs before this committee and to express my support for his nomination to serve as Commissioner of the Internal Revenue Service.

Mr. Gibbs is a resident of Dallas, TX. And while that may not be reason by itself to support his nomination, it is a good start.

Mr. Chairman, Mr. Gibbs has an excellent background to do a difficult job, and I think he will make a first class Commissioner.

We on this committee know full well that the IRS faces a demanding and critical task in the years ahead. We know that this Congress is going to probably pass a very major and extensive tax reform bill and pass it in the name of "tax simplification," all 2,000 pages of it, and we know what an extremely difficult job it is going to be in interpreting that new law and the dramatic changes it has made.

The job of the IRS is to encourage and achieve the highest degree of voluntary compliance with the tax laws, and to conduct itself so as to warrant the highest degree of confidence.

Regardless of all of our work, the study in the Congress and in this committee, the key to success of this very important endeavor will be public acceptance and confidence.

Mr. Gibb's background for this job is a broad one. This is not one of those cases where a nominee comes before the Senate without sufficient background. He has ample experience both within and without the Government. In addition to being a highly respected tax lawyer in private practice in Dallas, he served as Deputy and Acting Chief Counsel for the IRS, as Assistant Commissioner of the IRS, as well as a member of the advisory committee to the Commissioner of the IRS in the Tax Division of the Justice Department.

Mr. Gibbs, if you can't do it after all of that, it can't be done. [Laughter.]

He has a strong record, and I am pleased to support his nomination.

Mr. Chairman, I would also like to welcome Michael R. Darby before this committee, and nominate him to serve as Assistant Secretary of the Treasury for Economic Policy. He also brings what

appears to be a first class background to this important position, in addition to the fact that he has roots in Texas.

I would urge my colleagues to listen carefully to what these gentlemen have to say. I look forward to working with them as they confront these very difficult tasks ahead.

I am delighted to see my distinguished colleague Senator Gramm here, who has had much to do with these nominations.

Senator GRASSLEY. Senator Gramm, I would like to give you an opportunity to make a statement at this point.

STATEMENT OF HON. PHIL GRAMM, U.S. SENATOR FROM THE STATE OF TEXAS

Senator GRAMM. Thank you, Mr. Chairman.

I have found in my almost 2 years in the Senate that if I just identify myself with the remarks of my senior colleague, I would do OK. So let me begin by doing that.

I think we face a period of transition in the IRS. The next Commissioner is going to face the toughest job that anybody has ever had there, implementing one of the most comprehensive reforms of the Tax Code we have ever had, trying to get computer programs that work, and getting people's returns out on time. It will take a thorough knowledge of the system. It will take an understanding of the people who are out there paying the taxes. It will take a broad sense of fairness in trying to see that we collect every nickel that we are owed.

Yet, at the same time, we recognize that, as head of the IRS at least, that Mr. Gibbs will be in a position of trying to collect money from people he works for. I am convinced that he can do all of those things, and I wanted to come here and join in commending him to the committee.

I would like to say a little bit about Michael Darby. I have known him by reputation as an economist. He was born in Texas, and I would like to commend him to the committee as well.

Senator GRASSLEY. Thank you, Senator Gramm.

I would be happy to call on the Senator from Pennsylvania for any comment he has, before we go to the nominees.

Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Chairman, I am not an economist, but I am delighted to welcome Mr. Gibbs and Dr. Darby here. I unfortunately have to leave, but you have my full proxy.

Senator GRASSLEY. All right.

Senator BENTSEN. Mr. Chairman, assuming that you are going to poll them, you have my full proxy.

Senator GRASSLEY. Thank you, Senator Bentsen.

I also notice that the former Commissioner, the immediate Commissioner Roscoe Eggars, is in the audience. Welcome, Commissioner Eggars.

Now I would like to have you, before you make statements, Mr. Gibbs and Dr. Darby, if you would like to, introduce the family and friends who have come. It is usually the tradition that we do that.

Mr. GIBBS. Thank you, Senator. I would like to introduce my wife Dorothea, to you and to Senator Heinz. She is right behind me.

Senator GRASSLEY. Thank you.

Dr. Darby.

Dr. DARBY. Unfortunately, my wife and children are either taking or giving final examinations at this time and can't join us.

Senator GRASSLEY. Fine, and we know how supportive both families are of your nominations, and proud of you for this.

Mr. Gibbs, first of all, welcome. Congratulations on your nomination. You have been so far, and will be in the end, I predict, successful for your nomination. And we would call upon you for an opening statement or any printed record that you want made of your appearance here.

STATEMENT BY LAWRENCE B. GIBBS, NOMINEE FOR COMMISSIONER OF INTERNAL REVENUE

Mr. GIBBS. Senator, thank you.

I would simply like to thank Senators Bentsen and Gramm for their kind remarks. I have no statement to submit. I will be delighted to answer any questions that you, Senator Heinz, or others may have.

Senator GRASSLEY. Dr. Darby, the same for you—an opening statement, or a written statement you want to put in the record? This is your opportunity.

STATEMENT BY MICHAEL R. DARBY, PH.D., NOMINEE FOR ASSISTANT SECRETARY OF TREASURY FOR ECONOMIC POLICY

Dr. DARBY. I have no statement, either. It is a great honor to be nominated and to be considered by the Senate and to have those kind remarks by the Senators at the beginning.

Thank you.

Senator GRASSLEY. Thank you.

I think I would start with you, Senator Heinz, for questioning.

Senator HEINZ. All right.

Let me first accept these nominations officially. Where is Commissioner Eggar hiding out there? There he is.

Senator GRASSLEY. You understand I didn't introduce him.

Senator HEINZ. Oh, I understand, but he will be pleased with what I have to report.

He will recall, as indeed a number of us will, that a year ago we had a real disaster on our hands at the Philadelphia Service Center in Pennsylvania. I just want Mr. Gibbs to know, and I want to say this in the presence of Mr. Eggar, that although I was, first of all, really shocked back a year ago and, second, I was skeptical about 6 months ago as to the performance that we were going to achieve at the Philadelphia Service Center, given where it had been, I must say that in terms of return processing that center deserves the gold star award. It is currently so far ahead of last year, it is remarkable. The returns are being processed at a record rate; the adjustment inventories or the correspondence backlogs are markedly down even since March. In March they were one of the highest in the country; now they are the second lowest.

The problems resolution office has improved substantially. I still think we need to keep an eye on it, but it has come along very nicely.

And overall, I think that Commissioner Eggar can be proud. And Mr. Gibbs, he has left you, instead of a basket case, an operation that I think by the end of the year could be one of the finest in the United States.

So, I didn't want to let that go unremarked.

Don't smile too broadly; as far as the Internal Revenue Service is concerned, there are always going to be problems as long as we pay taxes, and I guess the only thing that is worse is when people don't pay their taxes and you have to go get them.

Mr. Gibbs, have you been brought up to date at any point on what I have just described in Philadelphia, other than what I said heretofore?

Mr. GIBBS. Senator, I know generally about the Philadelphia Service Center. I met for the first time today at lunch Joe Cloonan, who is the director at the Philadelphia Service Center.

Senator HEINZ. A first-class professional.

Mr. GIBBS. And I am delighted to hear the credit where it is obviously due, to former Commissioner Roscoe Egger, and also to Joe Cloonan and the other fine folks at the Philadelphia Service Center.

I don't have a great deal of background, other than what you have indicated; although, I know that this filing season is a substantial improvement over the last one, and indeed I gather is an improvement really over prior years at the Philadelphia Service Center.

Senator HEINZ. Oh, very, and thank heavens for that.

Let me ask you a couple of generic questions that grow out of my experience with Philadelphia.

We all know about the 1985 crisis, and it was not just at Philadelphia—there were other service centers and other offices that had problems. It seemed to be in part caused by the fact that the national headquarters of the Internal Revenue Service didn't coordinate with the service centers and didn't provide the kind of clearinghouse and exchange of knowledge that was really needed between the various centers. I say that because many of the centers faced the same exact kinds of problems. Some solved the problems immediately, and some like Philadelphia just couldn't solve it; they were overwhelmed.

There may still be—and it is hard for us outsiders to know for sure—that this issue of coordination is not fully, yet, in spite of major efforts, fully addressed and cleaned up. Obviously, to the extent it has not been fully resolved, I would like to see you take every immediate step to do so.

Have you got any opinion on how you can further improve the management of these centers at this time?

Mr. GIBBS. Senator, I have been told that, particularly with the experience last year, there have been a number of steps taken already to improve the coordination, not only between the national office here in Washington, DC, and the service centers, but among the service centers themselves.

I think the first thing that I need to do is to become more deeply educated about the problems that we faced in 1985, what has been done, and the suggestions for future coordination. When I do that, I

hope to have some ideas of my own as to how that coordination can be improved. I don't have any at this time.

Senator HEINZ. My time has expired.

Senator GRASSLEY. All right. I am not going to have any questions, so if you have some more and want another round, you had better do it right now.

Senator HEINZ. The fastest gavel in Iowa. [Laughter.]

Or anyplace else.

Mr. Chairman, thank you. I will be very brief. I would like to submit to Mr. Gibbs some additional questions in writing. I don't wish to unduly detain him or Dr. Darby.

[Senator Heinz' questions follow:]

Senator HEINZ. Let me shift from the kinds of management problems that my questions addressed to another, to the issue that is somewhat relevant to many of us on the Finance Committee having to do with tax amnesty.

You are aware that in recent months that idea has been given a lot of attention. Now, I have a lot of skepticism about tax amnesty. The States that have tried it have produced some additional revenue, but it appears to be more related to the enhanced enforcement efforts that take place almost always in conjunction with the notion of amnesty, and I am inclined to think that tax amnesty is shortsighted, that it exchanges a short-term gain for some long-term loses.

What is your view or your position on tax amnesty?

Mr. GIBBS. Senator Heinz, my view is largely a product of information that I have received as a practitioner. I really have not had a chance to discuss it with the folks in the Internal Revenue Service or in Treasury. So, my opinions really are formed as a result of information that has come to me as a practitioner. And realizing that, I may have an awful lot to learn.

It seems to me that in the final analysis it is a matter of balancing competing considerations. I have heard a great deal about revenue, and the States have said a great deal about revenue that they have raised. On the other hand, I look at the revenue estimates that have come out of the joint committee, the Congressional Budget Office, and Treasury, where they seem to agree that the revenue estimates are somewhere between a half-billion and a billion and a half dollars, which are very much lower than the original revenue estimates that some people were talking about.

It seems to me that after you look at the revenue side you then should look at the competing considerations in terms of fairness. Some have talked about fairness to those who are outside the tax system and would like to get back in. Others have talked about fairness to those who are already in the tax system, who have been meeting their tax obligations, and whether it is really fair to them to provide amnesty to those who have not been meeting their tax obligations.

I also understand that there are considerations about whether if you give an initial tax amnesty, does that lead people to believe that perhaps there will be later tax amnesties?

Senator HEINZ. You understand all of the problems quite well.

Mr. GIBBS. My initial reaction is that it involves a weighing and a balancing of these various considerations. My reaction, at least as

a practitioner—and I have stated this publicly—is that, at the present time anyway, it seems to me that as I weigh them I come out on the side of being very suspicious of amnesty and wanting more information about it. I am not inclined to embrace it at this point, but I do have an open mind.

Senator HEINZ. I can't fault your answer. I can't fault your conclusion. You have stated that as of this moment you could change your mind. Obviously, I tend to agree with where you are today, but you will have the opportunity to better inform yourself; and, if you change your opinion, there are probably some of us you will have to convince, as well.

So, I want to thank you, Mr. Chairman. I am impressed at the real power of the State of Texas here today.

Senator GRASSLEY. You and I will have to cooperate now.

Senator HEINZ. We will. And of the ascendancy of Dallas, in particular—it was no accident that Senator Bentsen was sitting up here, probably even before you got here, Mr. Chairman.

We want to congratulate both of you on your nominations, and I am sure that the committee will look at your records very carefully. From what I have heard so far, I don't think you are going to have much difficulty.

Thank you, Mr. Chairman.

Senator GRASSLEY. I want to note for the record that the committee has reviewed the nominees financial disclosure materials, and we have received a letter from the Director of the Office of Government Ethics signifying that both Mr. Gibbs and Dr. Darby's compliance with the Ethics in Government Act is complete. So, I am going to submit those letters for the record.

[The letters follow:]

United States
Office of Government Ethics
P.O. Box 14108
Washington, D.C. 20044

JUN 13 1985

Honorable Robert Packwood
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Lawrence B. Gibbs, who has been nominated by President Reagan for the position of Commissioner of Internal Revenue.

We have reviewed the report and have also obtained advice from the Department of the Treasury concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Gibbs is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

David H. Martin
Director

Enclosure

United States
Office of Government Ethics
P O Box 14108
Washington, D C 20044

JUN 18 1985

Honorable Robert Packwood
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Michael R. Darby, who has been nominated by President Reagan for the position of Assistant Secretary (Economic Policy), Department of the Treasury.

We have reviewed the report and have also obtained advice from the Department of the Treasury concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe Mr. Darby is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

David H. Martin

David H. Martin
Director

Enclosure

Senator GRASSLEY. As I indicated, I have no questions, but I have had a close working relationship with the Commissioner of Internal Revenue over the last 4 years that I have been in the committee, the 4 years that I was chairman of the Subcommittee on Oversight, and I look forward to the continuation of that working relationship.

I was satisfied in my meeting yesterday with you, Mr. Gibbs, of that willingness to work with this subcommittee. And even though I am not chairman of it, I still do take very much an interest in the work of that subcommittee as just a member.

I am sorry that I probably very indirectly deal with you, Dr. Darby, in your position. But obviously, as both a member of the Budget Committee and as a member of the Finance Committee, I am very much interested in what we project as revenues and the economic policies that the Department thinks we ought to have that will bring in a maximum amount of revenue. So, I am very much interested in your work, even though it hasn't been as close a relationship with your division as what I have done with the Commissioner.

I am done now but, before I gavel the meeting closed, at a very near time we would expect to have a markup on the final approval of your nomination. Whether that will be at a special meeting called on a kind of ad hoc basis maybe even yet today, I have been informed by staff, or maybe a few days down the road, I don't know. But it will be very close, because we intend to move forward with these nominations.

With that said, and once again with final congratulations, I announce that the meeting is closed.

[Whereupon, at 2:25 p.m., the meeting was concluded.]